



Global Credit Services
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Webinar Presentation

Big Lots and Tuesday Morning

June 14, 2016

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Today's Agenda

1. Economic Overview

2. Big Lots

- Company Profile
- Latest Quarterly Results and Financial History
- Key Developments and Strategic Initiatives
- GCS Observations and Conclusions

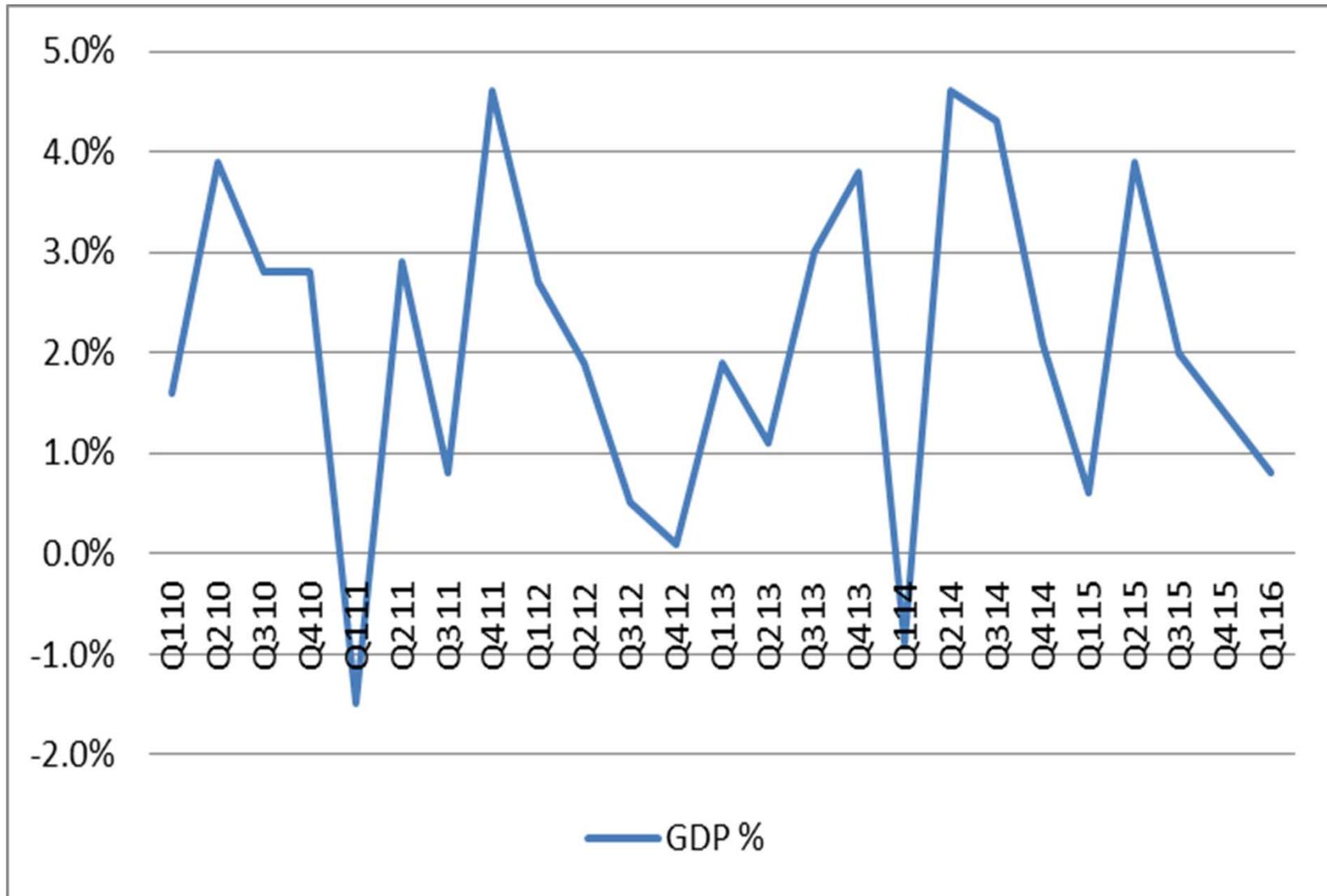
3. Tuesday Morning

- Company Profile
- Latest Quarterly Results and Financial History
- Key Developments and Strategic Initiatives
- GCS Observations and Conclusions

4. Q&A

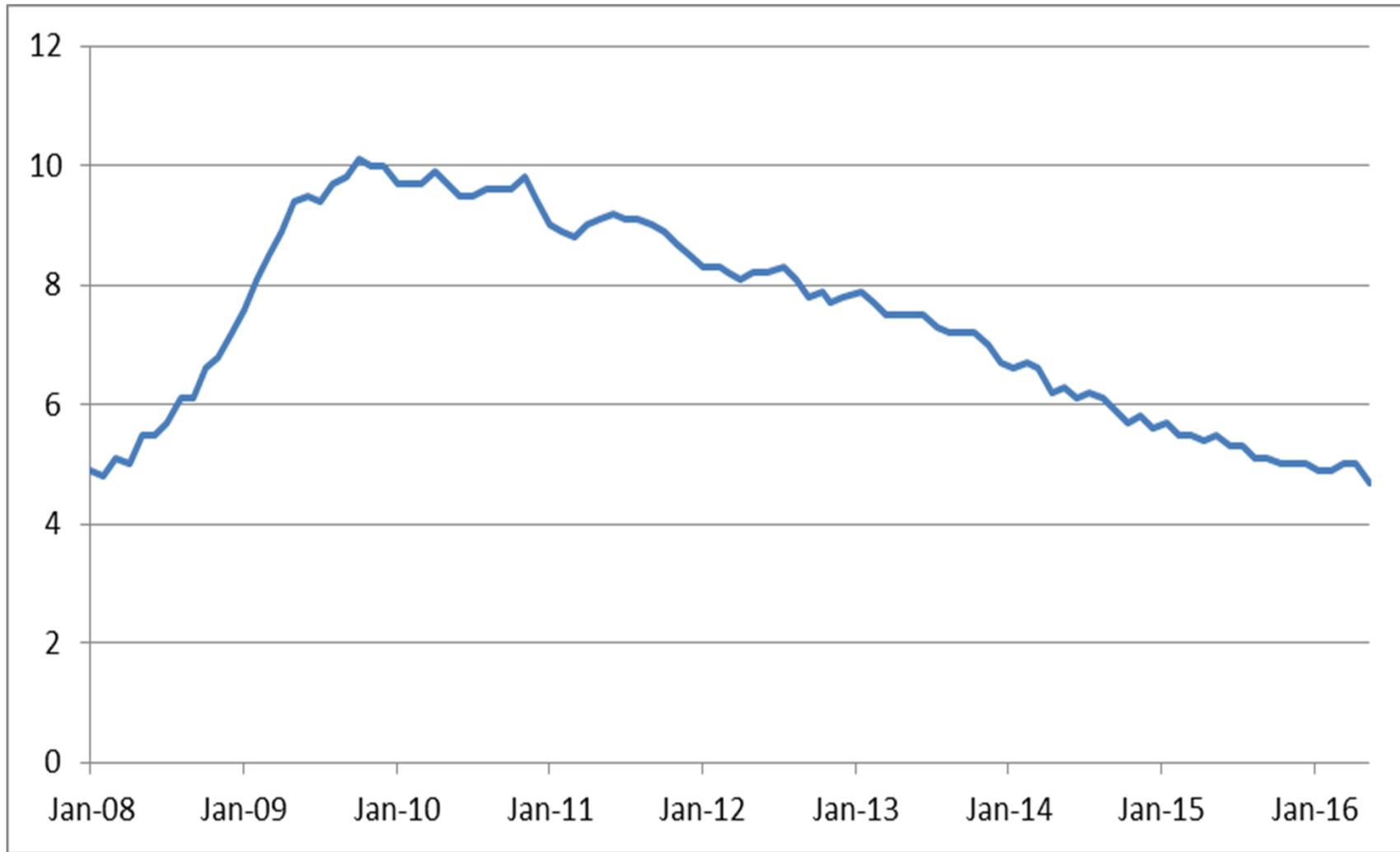
ECONOMIC OVERVIEW

GDP Growth



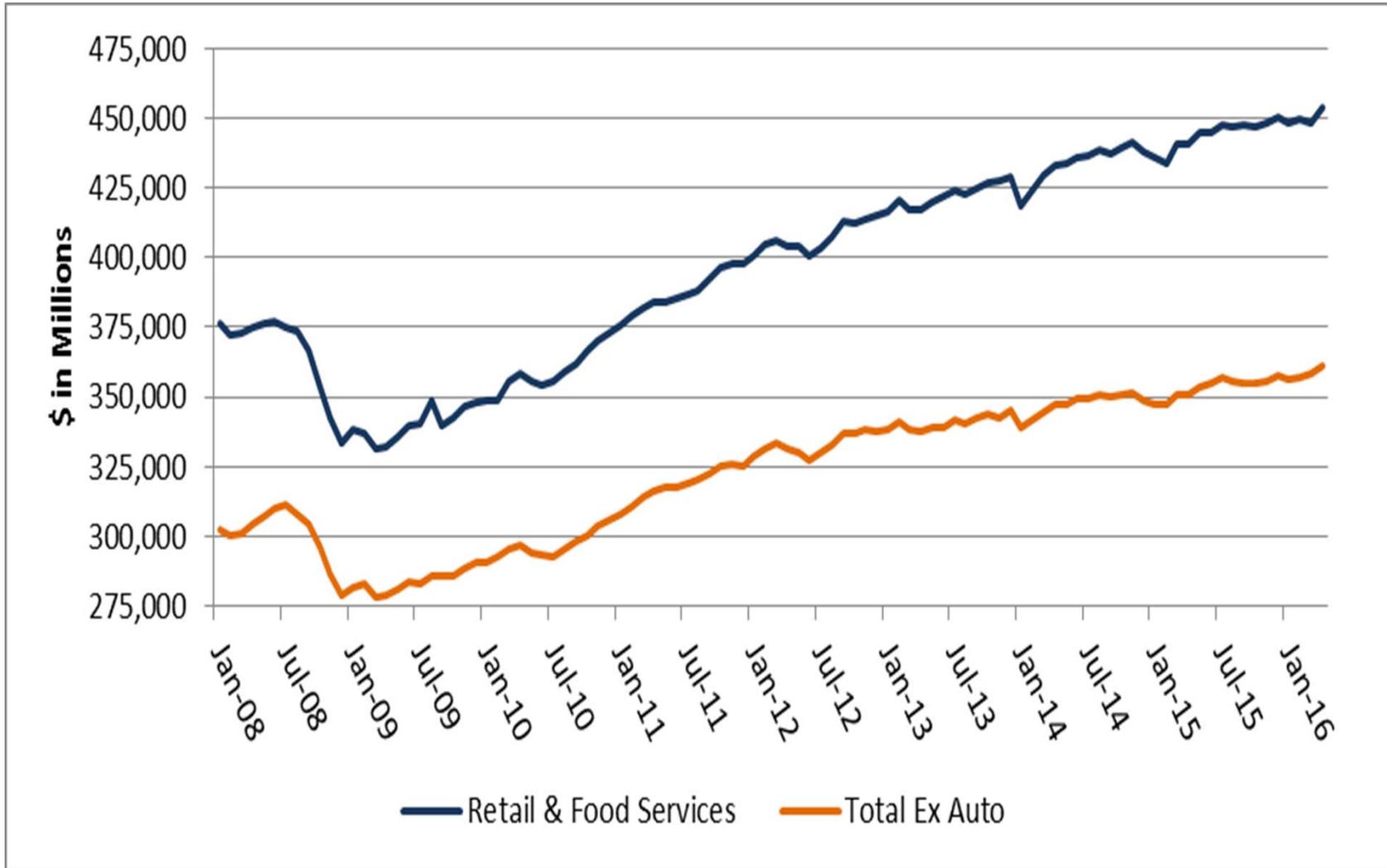
ECONOMIC OVERVIEW

U.S. Unemployment Rate



ECONOMIC OVERVIEW

Retail Sales



BIG LOTS Overview



- **We assign Big Lots an elevated risk, “D” credit rating and stable outlook.**
- Discount retailer – in closeout subsector
- History – started in 1967 by Sol Shenk
- Today – U.S. retail only segment
- Competitors – 99 Cents Only Stores, Dollar General, Dollar Tree, Fred’s, Ross Stores, The TJX Companies, Tuesday Morning

BIG LOTS Store Overview



- Store size – total 30,000 average square feet, selling only 22,000 square feet
- Store renewals – 250 average for next three years



BIG LOTS

Merchandise Mix



Merchandise Mix	FY16	FY15	YOY Change
Furniture	22%	20%	2%
Consumables	18%	18%	0%
Food	16%	16%	0%
Seasonal	16%	17%	-1%
Soft Home	12%	11%	1%
Hard Home	9%	10%	-1%
Electronics & Accessories	7%	8%	-1%
Total	100%	100%	

BIG LOTS Merchandise Pictures



BIG LOTS

Latest Quarterly Results: Income Statement



3 Months Ended Q117

<i>(\$ in millions)</i>	<u>4/30/16</u>	<u>5/2/15</u>	<u>YOY Var.</u>
Revenue	\$1,312.6	\$1,280.5	2.5%
Same-Store Sales %	3.0%	1.6%	
Gross Profit	517.7	504.1	2.7%
Gross Margin	39.4%	39.4%	7 bps
EBITDA	\$94.4	\$84.9	11.2%
EBITDA Margin	7.2%	6.6%	56 bps
Operating Income	\$64.7	\$53.7	20.5%
Operating Margin	4.9%	4.2%	74 bps

BIG LOTS

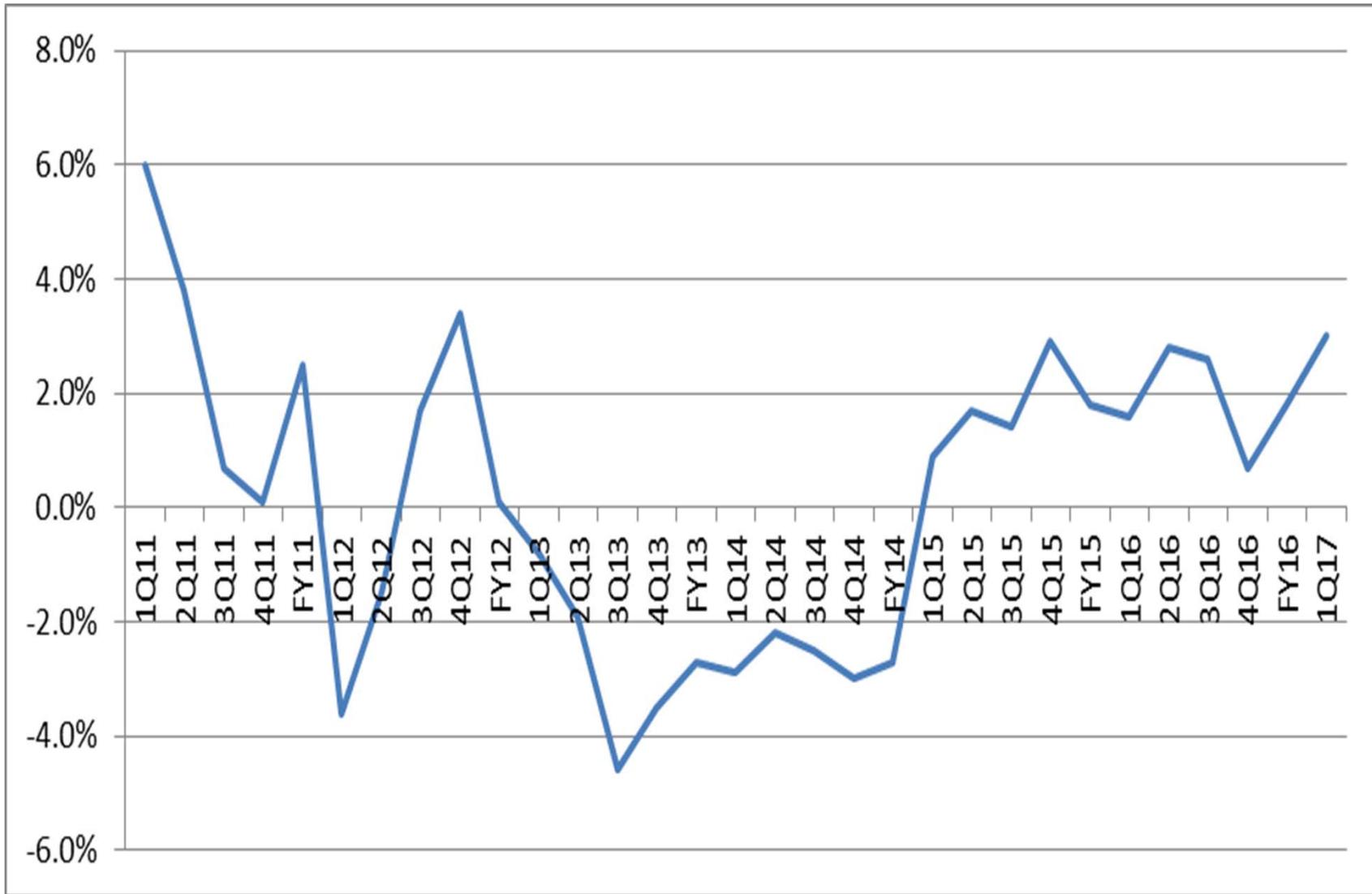
Latest Quarterly Results: Credit Metrics



- Debt: \$153.8 million at end of April 30, 2016, +279.8% YOY
- Rent Adjusted Leverage Ratio: 3.9x as of Q117, compared to 3.8x in prior year
- Interest Coverage Ratio: 2.2x as of Q117, compared to 2.1x in the prior year
- Liquidity: \$600.8 million at end of Q117, -16.3% YOY
 1. Cash and cash equivalents: \$64.4 million, -4.2% YOY
 2. Revolving credit facility: \$536.4 million, -17.5% YOY
- Free Cash Flow: \$59.9 million in Q117, +1.8% YOY

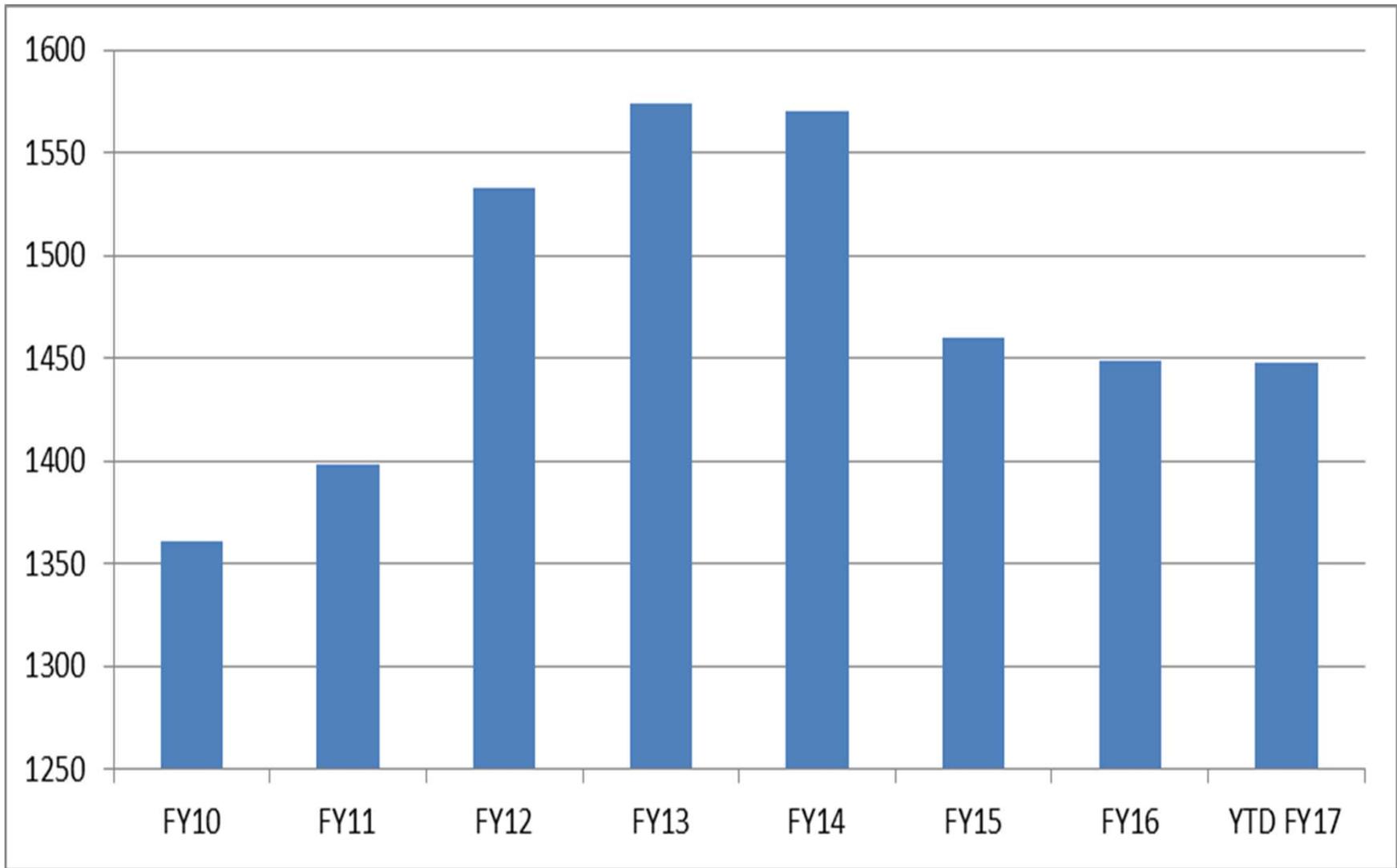
BIG LOTS

Financial History: Same Store Sales Growth



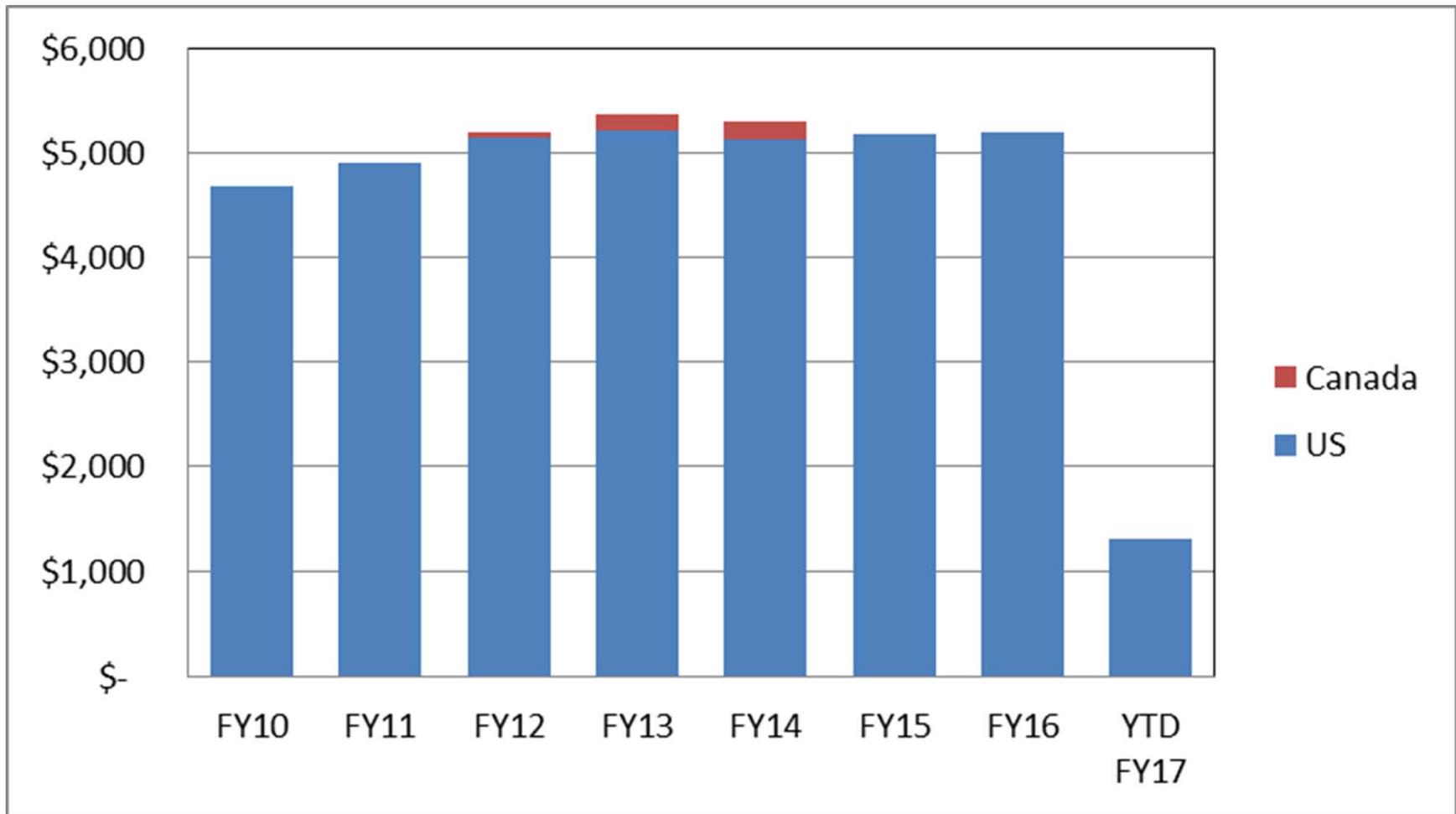
BIG LOTS

Financial History: Store Count



BIG LOTS

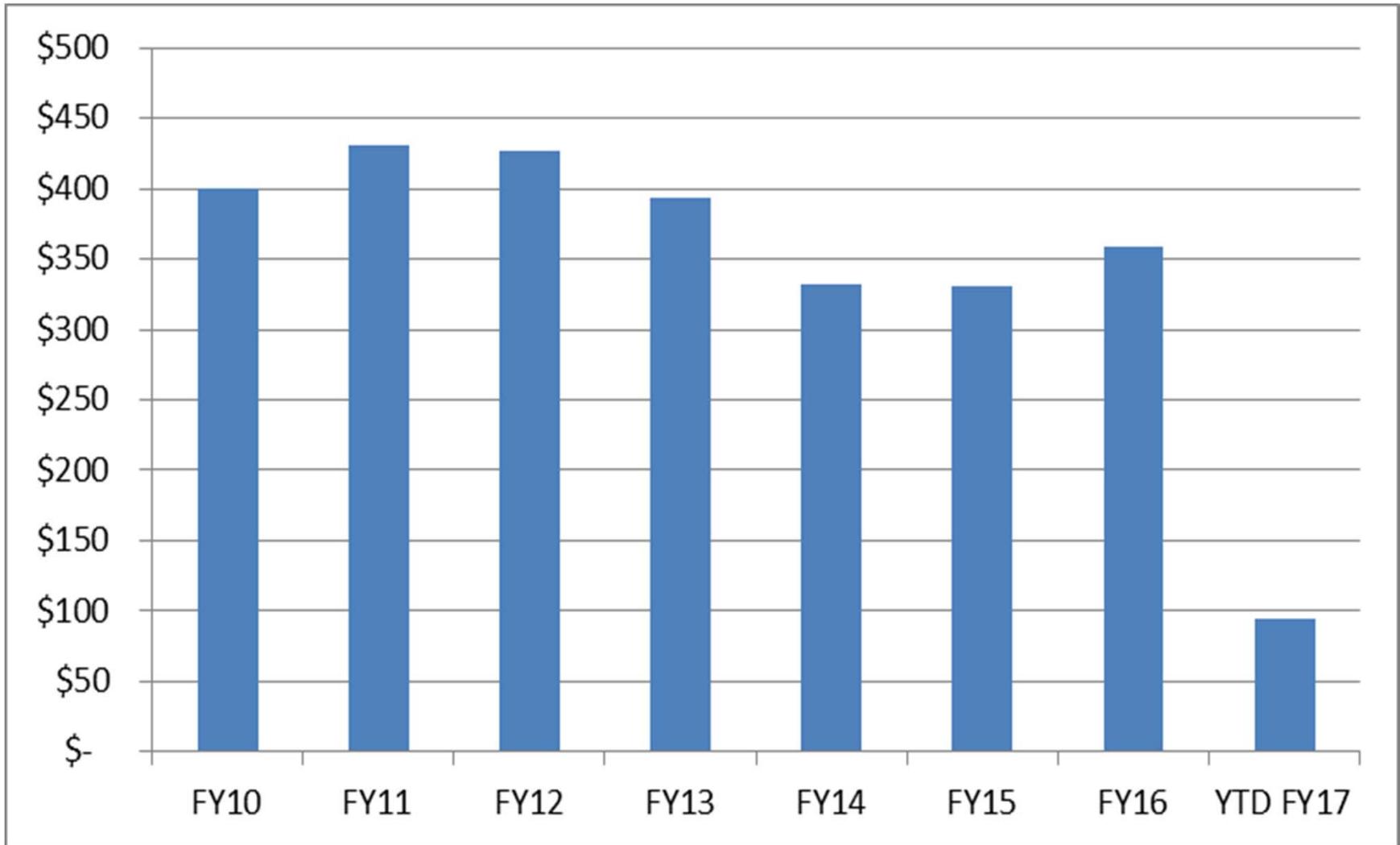
Financial History: Sales



Note: \$ in millions

BIG LOTS

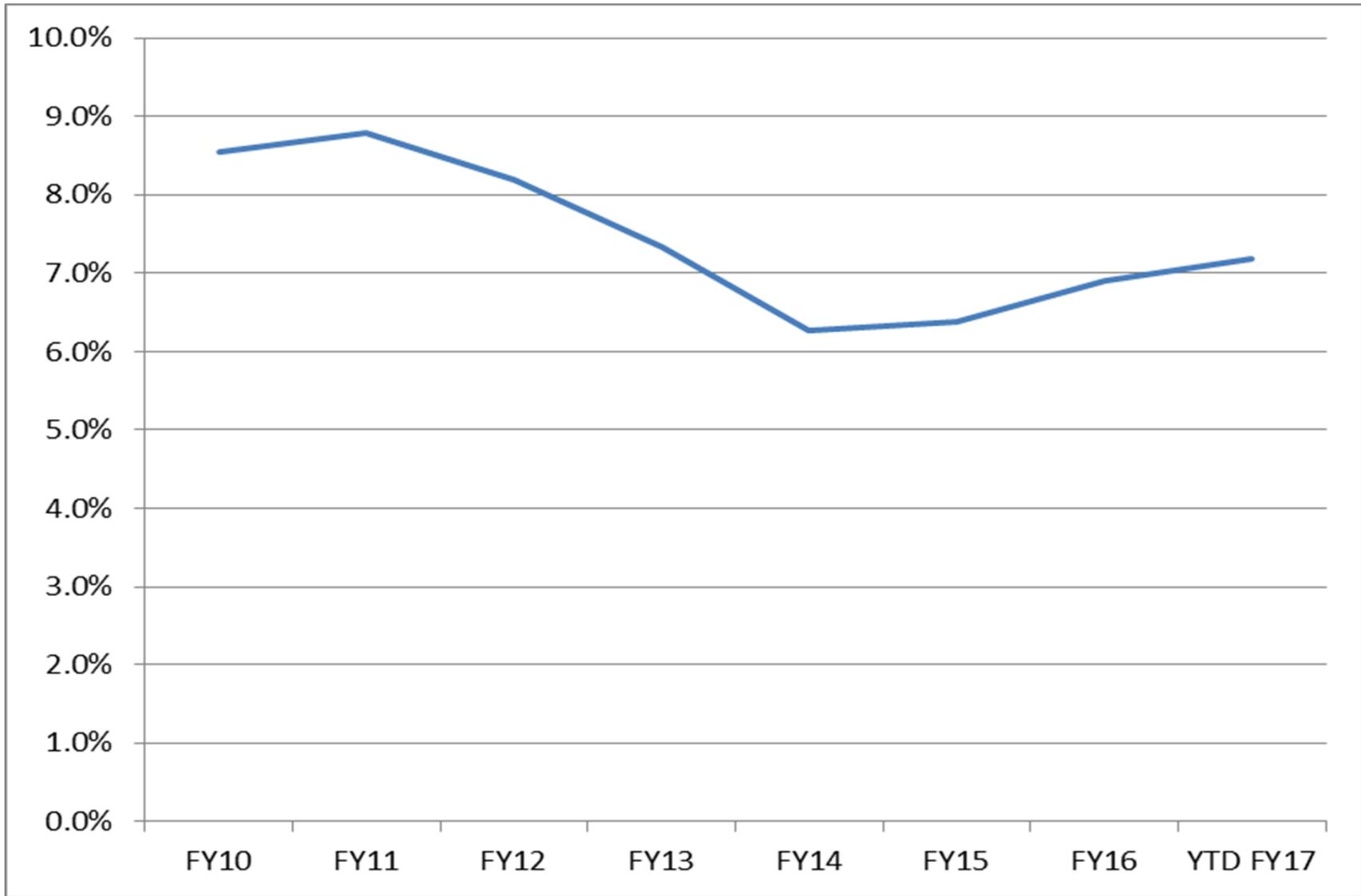
Financial History: EBITDA



Note: \$ in millions

BIG LOTS

Financial History: EBITDA Margin



BIG LOTS Key Developments



- 5/6/13: New CEO, David Campisi
- 11/1/13: Shutdown Wholesale operations and Shutdown Canadian division
- FY14: Restructured merchandise categories; Launched furniture financing program; Introduced coolers and freezers in Food category and started accepting SNAP (formerly called Food Stamps)
- 3/6/15: Raised quarterly cash dividend 12% to \$0.19 per share
- 1/31/15: Share buybacks worth \$250 million in Fiscal Year
- 8/25/15: Promoted Lisa Bachmann to Chief Merchandising and Operating Officer; Tim Johnson to EVP- Chief Administrative Officer and CFO, and Michael Schlonsky to EVP – HR and Store Operations
- 3/4/16: Raised quarterly cash dividend 11% to \$0.21 per share
- 4/7/16: Moving HQ within Columbus, OH

BIG LOTS

Strategic Initiatives



- Merchandising initiatives: Positive impact
 1. Edit merchandise categories – evaluate, downsize, or eliminate categories that are neither top of mind nor a competitive advantage.
 - A. Quality, brand, fashion and value (QBFV)
 2. Amplify merchandise categories – expand categories that key to core customer and have competitive advantage in pricing and sourcing.
 - A. Focus on Food, Consumables, Furniture, Soft Home, and Seasonal.
 - B. Phase 2: narrower assortment and depth of categories
 3. Furniture Financing – third-party lease-and-purchase option
 - A. Expand department by 300-500 square feet

- Marketing initiatives: Positive impact
 1. Television and online video campaigns –
 - A. Airing television spots in multiple languages on culturally diverse television networks.
 - B. 3 million Facebook followers.
 - C. On Twitter, Instagram, and Pinterest.
 - D. No social media presence a few years ago.

BIG LOTS

Strategic Initiatives



- **Ecommerce initiatives: Positive Impact**
 1. Motto – “crawl, crawl, walk, and run”
 2. Limited number of SKUs available online – about 3,000
 3. Testing and learning
 4. More marketing the site during Memorial Day holiday
- **Store execution initiatives: Positive Impact**
 1. New in-store execution standards
 2. New customer service program
 3. New tools to self-assess our progress on store execution through the “J-walk”
 4. New ways to gather feedback from customer about shopping experience
 5. Improving the flow of merchandise from our backrooms to the store floor
 6. Utilizing online recruiting tools to deepen our bench strength
 7. Automating the labor scheduling process
 8. Training our Furniture associates on the “art of the sale”
 9. Defining the roles and responsibilities of our in-store associates

BIG LOTS

GCS Observations and Conclusions



- **We assign Big Lots an elevated risk, “D” credit rating and stable outlook.**
- Discount Retailer focused on closeouts
- Turning around business with focus on U.S. market
- Strong management team
- Improving financial results
- Initiatives in merchandising, marketing, ecommerce, and store execution are key

TUESDAY MORNING Overview



- **We assign Tuesday Morning a high risk, “E-” credit rating, and stable outlook.**
- Discount retailer – in closeout subsector
- History – opened first store in 1974
- Management changes and Turnaround initiatives
- Competitors – 99 Cents Only Stores, Dollar General, Dollar Tree, Fred’s, Ross Stores, The TJX Companies, Big Lots

TUESDAY MORNING Store Overview



- Store size: 5,000 – 31,800 square feet. Average 10,500 square feet
- Store count: 748 stores in 43 states
- Merchandise items: Kitchen accessories, Small electronics, Gourmet Housewares, Linens, Lamps, Rugs, Furniture, Luggage, Bedroom accessories, Toys, and Bathroom Accessories
- Brands: Breville, Calphalon, Cuisinart, KitchenAid, Lenox and Denby, Michael Kors, Peacock Alley, Sferra, Travel Pro, Reed and Barton, Riedel, Viking, Waterford, and Wedgewood

TUESDAY MORNING Merchandise Mix



TUESDAY MORNING Store and Merchandise Pictures



TUESDAY MORNING

Latest Quarterly Results: Income Statement



(\$ in millions)	<u>3 Months Ended Q316</u>			<u>9 Months Ended YTD16</u>		
	<u>3/31/16</u>	<u>3/31/15</u>	<u>YOY Var.</u>	<u>3/31/16</u>	<u>3/31/15</u>	<u>YOY Var.</u>
Revenue	\$211.4	\$189.7	11.4%	\$733.6	\$693.3	5.8%
Same-Store Sales %	13.4%	6.5%		8.4%	8.4%	
Gross Profit	77.5	72.4	7.0%	262.8	253.4	3.7%
Gross Margin	36.7%	38.2%	(151 bps)	35.8%	36.5%	(72 bps)
EBITDA	\$0.4	\$0.9	(58.0%)	\$22.5	\$25.5	(11.8%)
EBITDA Margin	0.2%	0.5%	(29 bps)	3.1%	3.7%	(61 bps)
Operating Income	(\$3.5)	(\$2.1)	N/A	\$11.1	\$16.4	(32.2%)
Operating Margin	(1.7%)	(1.1%)	(56 bps)	1.5%	2.4%	(85 bps)

TUESDAY MORNING

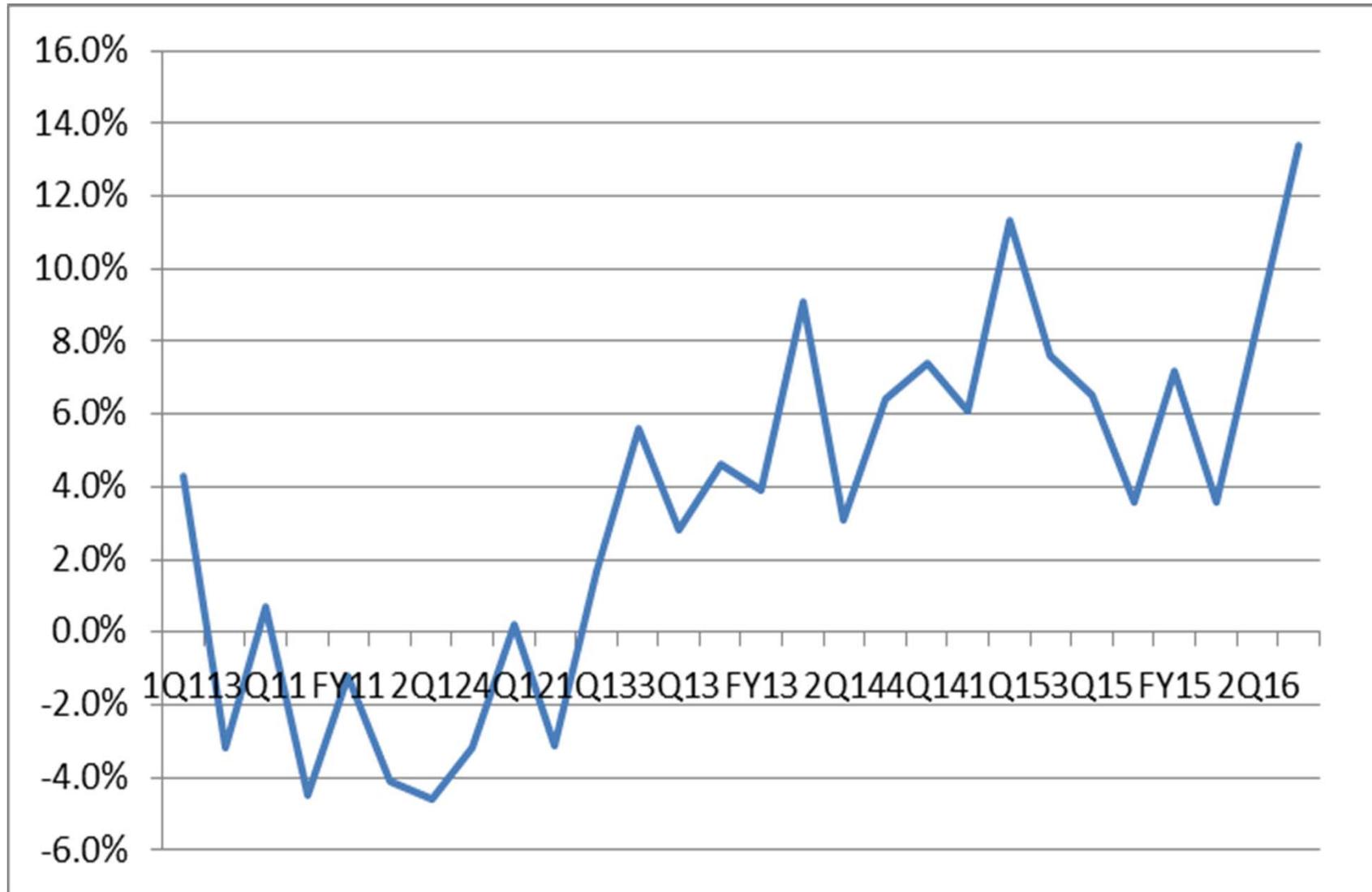
Latest Quarterly Results: Credit Metrics



- Debt: N/A
- Rent Adjusted Leverage Ratio: 6.4x as of Q3 (Mar.), compared to 6.1x in prior year
- Interest Coverage Ratio: 1.2x as of Q3 (Mar.), compared to 1.3x in the prior year
- Liquidity: \$145.8 million as of Q3 (Mar.), 16.9% YOY
 1. Cash and cash equivalents: \$15.1 million, -64.9% YOY
 2. Revolving credit facility: \$130.7 million, 19.3% YOY
- Free Cash Flow: -\$27.5 million as of YTD (Mar.) vs. -\$7.7 million in prior year

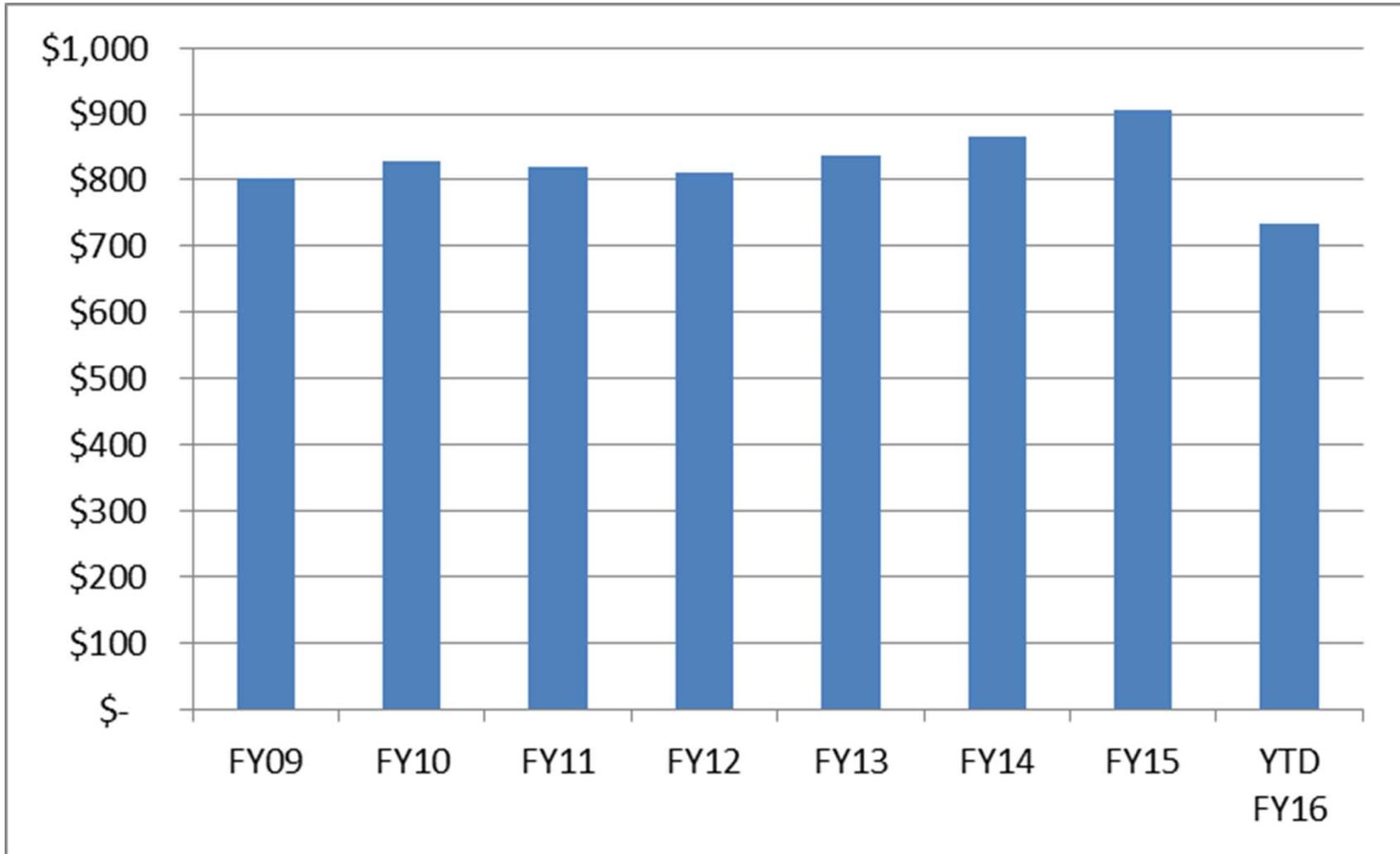
TUESDAY MORNING

Financial History: Same Store Sales Growth



TUESDAY MORNING

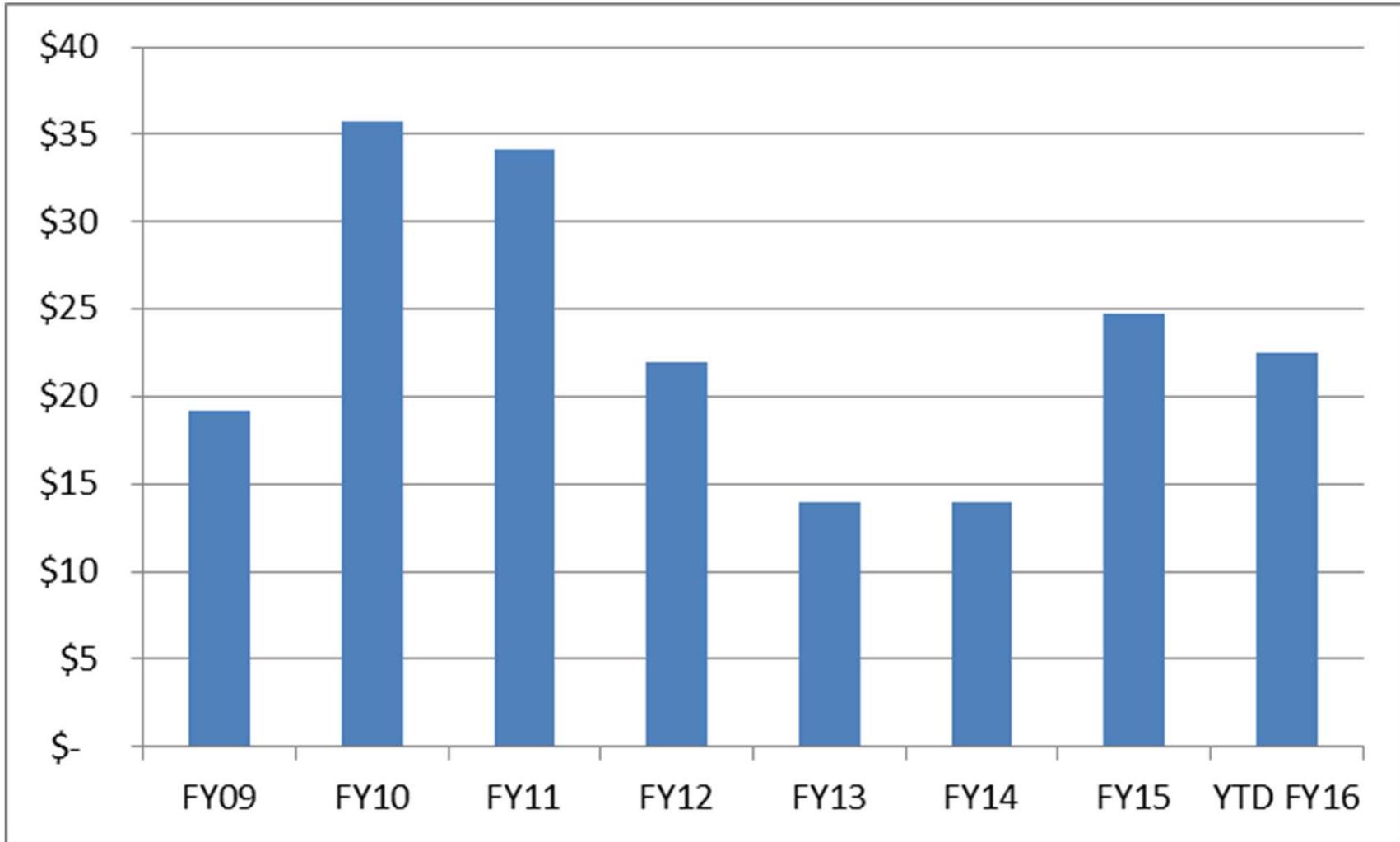
Financial History: Sales



Note: \$ in millions

TUESDAY MORNING

Financial History: Adjusted EBITDA



Note: \$ in millions

TUESDAY MORNING

Financial History: Adjusted EBITDA Margin



TUESDAY MORNING Key Developments



- 3/20/13: New CEO, Michael Rouleau
- 5/16/13: Ex-CEO, Kathleen Mason sues company
- 10/30/13: Transition merchandise from shoes and women's sportswear, to key areas, like bedding and electrical appliances.
- 4/21/14: Settle lawsuit by ex-CEO
- 9/9/14: New CFO, Jeff Boyer
- 11/12/14: Open Thanksgiving Day
- 4/30/15: New COO, Melissa Phillips
- 6/30/15: CFO, Jeff Boyer resigns
- 9/30/15: CEO, Michael Rouleau retires; Company creates a new Office of the Chairman, led by current Board Chairman Steven R. Becker
- 12/14/15: New CEO, Steven R. Becker
- 12/17/15: New CFO, Stacie Shirley

TUESDAY MORNING Strategic Initiatives



- Merchandising initiatives: Positive impact
 1. Focus on core competencies
 - A. Eliminated apparel and shoes categories.
 - B. Focused on bedding and electrical appliances.
 2. Broad and Shallow vs. Narrow and Deep merchandise strategy
 - A. Broad and shallow benefits are higher inventory turnover and lower markdowns.
 - B. Net result is more profit on each sales dollar.
 3. Improving quality and brands
 - A. Added relevant name brands across product categories.
 - B. Introduced new brands.
 - C. Net result is strong sales growth.

TUESDAY MORNING Strategic Initiatives



- Operational initiatives: Positive impact
 1. Distribution Centers
 - A. New 10-year lease for flow through DC in Phoenix, AZ.
 - B. Expects to be fully operational by first half of FY17.
 - C. Reviewing distribution network analysis
 - D. Reviewing inventory planning and allocation
 2. Expanding Supplier base
 - A. New suppliers boost treasure hunt factor, newness in stores, unique items.
 - B. Shipping products more frequently to the stores to support Broad and Shallow merchandise strategy

TUESDAY MORNING Strategic Initiatives



- Marketing initiatives: Positive impact
 1. Print and Email strategy
 - A. Key: leveraging our current print and email marketing strategy
 - B. Also testing new ways to communicate and adjusting mix
 2. Reallocation of dollars spent
 - A. Spending money on external agency to review marketing
 - B. Improving in-store signing and marketing materials.

- Real Estate initiatives: Positive impact
 1. Realign store base
 - A. Key: quickly shifting store base from marginally productive to highly productive assets
 - B. Actively relocating stores for the next five years
 - C. In YTD FY 16: 12 New, 32 relocated, and 33 closures stores
 - D. In Q4 FY 16: 4 new, 14 relocate, 1 closure, and 4 expand stores

TUESDAY MORNING GCS Observations and Conclusions



- **We assign Tuesday Morning a high risk, “E-” credit rating, and stable outlook.**
- Discount Retailer focused on closeouts
- Turning around business
- Mixed financials results
- New Management team
- Initiatives in merchandising, operations, and marketing are key
- Revitalizing store base

Questions & Answers

ADMINISTRATIVE ITEMS

Contact Information



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ADMINISTRATIVE ITEMS

GCS Ratings Definitions



Rating/Risk	Financial Structure	Liquidity	Cash Flow	Revenues	Operating Profitability
A MINIMAL Risk	Strong financial structure – low leverage, strong coverage, high quality capitalization. ¹	Strong liquidity – both cash & short-term investments, as well as proven access to unsecured credit	Strong cash flow – from profitable continuing business, adequate capital investment, strong management of working capital. ²	Dependable revenues – organic growth; competitive dominance.	High quality operating profitability – margins better than industry norms.
B LOW Risk	Solid financial structure – modest leverage, strong coverage, tangible equity, longer debt capital.	Solid liquidity – both proven access to unsecured credit with committed lines backing any commercial paper; adequate cash, short-term investments.	Solid cash flow – from profitable continuing business, adequate capital investment, solid management of working capital.	Dependable, growing organic revenues – strong competitive position.	Solid quality operating profitability – solid margins vis-à-vis industry.
C MODERATE Risk	Stable financial structure – moderate leverage, acceptable coverage, moderate-quality capitalization; some elements of financial structure may pose risks.	Dependable liquidity – committed unsecured bank lines with moderate usage and availability, securitization programs, adequate cash holdings.	Cash flow – from profitable continuing business, capital investment, and adequate management of working capital; cash flow may be erratic some years.	Dependable revenue base – organic growth in line with economic environment.	Operating profitability – margins at or better than industry norms.
D ELEVATED Risk	Risky financial structure – heavier leverage, marginal coverage, lower quality capitalization.	Defensive liquidity – secured bank lines usually in use, availability still sufficient.	Cash flow occasionally negative – capital investment constrained, defensive management of working capital.	Revenue base stagnant – little organic growth, uncertain competitive standing.	Weaker operating profitability – margins at or below industry norms
E HIGH Risk	Weak financial structure – heavy leverage, weak coverage, short-to-medium-term debt capital, little if any tangible equity.	Weaker liquidity – secured bank lines mostly in use with little availability; defensive cash hoarding may be evident.	Cash flow frequently negative – capital investment limited, defensive management of working capital; asset sales material ongoing source of cash.	Revenue base declining – weak competitor that's losing market share.	Weak operating profitability or losses – margins below industry norms.
F DISTRESSED Risk	Extremely weak financial structure – overwhelming leverage, inadequate interest coverage, impending debt maturities, negative tangible equity.	Little or no liquidity – secured bank lines near limits with no effective availability; defensive cash hoarding.	Negative cash flow – inadequate capital investment, cash conversion cycle lengthening, working capital eroding; marketable assets mostly sold already.	Declining revenues – eroding competitive standing, losing market share.	Operating losses – on continuing business.

¹Quality of capitalization includes tangible equity and maturity of debt capital. High quality capital includes tangible equity and long term unsecured and subordinated debt. Elements that weaken capitalization include goodwill and debt maturing within next couple of years.

²Management of working capital emphasizes the cash conversion cycle: turnover of receivables, inventory, payables and unearned income.

ADMINISTRATIVE ITEMS

Map of GCS Scores & Ratings To Agencies



Global Credit Services					
Score		Rating			
From	To		S&P / Fitch	Moody's	
-	-	0	NR	NR	
1.00	1.32	A+	AAA	Aaa	
1.00	1.32	A+	AA+	Aa1	
1.33	1.65	A	AA	Aa2	
1.66	1.99	A-	AA-	Aa3	
2.00	2.32	B+	A+	A1	
2.33	2.65	B	A	A2	
2.66	2.99	B-	A-	A3	
3.00	3.32	C+	BBB+	Baa1	
3.33	3.65	C	BBB	Baa2	
3.66	3.99	C-	BBB-	Baa3	
4.00	4.32	D+	BB+	Ba1	
4.00	4.32	D+	BB	Ba2	
4.33	4.65	D	BB-	Ba3	
4.66	4.99	D-	B+	B1	
5.00	5.32	E+	B	B2	
5.00	5.32	E+	B-	B3	
5.33	5.65	E	CCC+	Caa1	
5.33	5.65	E	CCC	Caa2	
5.66	5.99	E-	CCC-	Caa3	
6.00	6.32	F+	CC+	Ca1	
6.00	6.32	F+	CC	Ca2	
6.33	6.65	F	CC-	Ca3	
6.66	6.99	F-	C	C	
6.66	6.99	F-	D	D	